Minutes of the Finance & Estates Committee held on Thursday 1st December 2022 at 5pm in Conference Room 2, Broadway

Members Present:	Alison Hodge Valerie Little Jason Parker (Chair) Liz Sithole Jack Stokes Neil Thomas Nick Thompson David Whatton
In attendance:	Gill Darwood (Director of Corporate Governance) Steve Johnson (Executive Director Estates & Capital Projects) Louise Jones (Chief Finance Officer)

Committee administrative matters

1 **Confirmation of quorum**

1.1 The Director of Corporate Governance confirmed that the meeting was quorate.

2 **Apologies for absence**

2.1 Apologies for absence were received from Diana Martin, Vice Principal.

3 **Declarations of interest**

3.1 There were no declarations of interest.

4 **Approve minutes of previous meeting held 9th May 2022**

4.1 The minutes and confidential minutes of the meting held on 9th May 2022 were agreed as an accurate record for signature by the Chair.

5 **Matters arising**

5.1 There were no matters arising.

6 **Committee's Terms of Reference 2022/23**

6.1 The DGC advised that it was considered good practice for Corporation committees to undertake a periodic review of their terms of reference. The terms of reference for the Finance & Estates Committee had been reviewed with the proposed amendments highlighted through tracked changes. A Hodge noted that there was an error in the date within the document footer which the DCG agreed to correct prior to submission for approval by the Corporation.

6.2 **It was resolved** To recommend the terms of reference for 2022/23 to the Corporation for approval.

7 **Committee's Annual Report 2021/22**

7.1 The DCG presented the report which summarised the work undertaken by the Finance & Estates Committee in 2021/22. Once approved by members the report would be placed in the document library of Convene for access by all Corporation members.

7.2 **It was resolved** To approve the Finance and Estates Committee's Annual Report 2021/22.

Finance Matters

8 Curriculum contribution analysis 2021/22

8.1 The CFO presented the curriculum contribution analysis. She advised that the model was being refined however the summary provided the format that the College had prepared for each curriculum manager and each Assistant Principal. The model required further scrutiny by the curriculum leadership team to ensure accuracy in recording of income and costs and she would be able to share the detailed model with governors once colleagues had had the opportunity to review and challenge the report.

8.2 The College did not expect each area to return the same level of contribution. For example AP1 (Assistant Principal 1), held all of the educational support assistants who provided support for students across the college, however the income was attached to the students receiving support who sat in other curriculum areas. Equally, AP4 held all of the English and maths staff, where the income for these qualifications was generated by the students in each curriculum area. The aim was to ensure that each area achieved their budget level of contribution or better.

8.3 In response to a request from members, it was agreed to add a key to abbreviations used for future reports.

8.4 **It was resolved** To note the curriculum contribution analysis report 2021/22.

Finance Matters

9 Year end position incorporating Annual Report and Financial Statements 2021/22 and Reconciliation of July 2022 management accounts and year-end accounts 2021/22

9.1 The CFO advised that the external auditors Bishop Fleming had concluded their audit work and had confirmed in doing so, they had not identified any significant risks requiring further audit work. There was one unadjusted error in relation to the potential cost as a result of the Harpur Trust vs Brazel case. The prior year audit recommendation had been implemented.

9.2 The year-end position showed a positive outturn compared to forecast. While income was lower than target as the College had reported throughout the year, both pay and non-pay costs returned positive variances as a result of effective management action in year. The financial outturn also benefited from the release of £756k provisions from the balance sheet, accrued in prior years. At £4.9m EBITDA was £1.2m better than forecast, as was EBITDA as a percentage of income at 10.7%. Most KPIs had been met with the exception of borrowing as a percentage of income. Cash and cash days were better than expected (£6.86m and 55 days respectively), despite £500k Rolling Credit Facility (RCF) repayment that had not been budgeted for. Loan covenants had been met with substantial headroom. The college's financial health, excluding FRS102 calculated as Good.

9.3 A summary of the year-end position in management account format was provided including a reconciliation of July 2022 to the period 12 management accounts.

9.4 The CFO advised that there was one potential further adjustment relating to unspent Discretionary Learner Support Fund which was still under discussion with external auditors.

9.5 The CFO answered questions from members and provided further clarification on points of detail, including the pension fund arrangements and their impact on the College's accounts.

9.6 In response to a question from D Whatton the CFO advised that the rating of 'good' in respect of financial health would be reported to the ESFA who only adjusted the published grade in July on submission of the Colleges Financial Forecast Report (CFFR).

9.7 The CFO advised that Bishop Fleming had attended the recent audit committee to present their report, noting that they had rated the College as green against all of their indicators for preparation, which was unusual and was a very positive reflection on the College's finance team, particularly in view of the changes in finance staffing during the year. Members expressed their thanks to the finance team for achieving this audit.

9.8 The CEP noted that whilst there was still some residual impact of Covid on student enrolments this had been mitigated in year through managing expenditure, but the key for future sustainability was to drive up income through development of new opportunities.

9.9 In response to a question from the Chair the CEP advised that he understood there would be a small increase for the base rate of Adult Education Funding through WMCA and that they would look individually at funding for bespoke programmes such as Sector Based Work Academy Programmes (SWAPs). There was however no likelihood of an increase in ESFA funding rates.

9.10 **It was resolved** To recommend the Annual Report and Financial Statements 2021/22 and Reconciliation of July 2022 management accounts and year-end accounts 2021/22 to the Corporation.

10 Management accounts to October 2022

10.1 The CFO presented the management accounts for October 2022 which showed the position three months into the new financial year. She advised that the accounts and commentary did not take account of the revised budget that had been prepared for approval.

10.2 The key points to note from the first operating quarter were:

- The operating position and EBITDA were lower than budget and this was largely being driven by a shortfall in adult and apprenticeship income and was reflected in the KPI flags.

- There were positive variances in pay and non-pay expenditure which were offsetting the adverse variance in income.
- The College was not currently using the Revolving Credit Facility (RCF), as the cash position was comfortable however this was having a slight adverse impact on KPIs for cash, current ratio and debt service cover, although borrowing as a proportion of income was much lower.
- The accounts represented performance in the first quarter and information on loan covenants, financial health and sensitivity analysis were included.

10.3 The CFO provided further clarification on points of detail in response to questions from members relating to the calculation of debt service cover.

10.4 She advised that she would include details of funding per student when the report was presented to the Corporation.

10.5 It was noted that implications relating to the reclassification of colleges by the ONS would be picked up later in the agenda.

10.6 **It was resolved** To recommend the management accounts to October 2022.

11.1 Revised budget 2022/23

11.1.1 The CFO advised that a revised budget was being presented for approval, given the original budget was based on the understanding of finances and other matters in May 2022.

11.1.2 The paper presented the key changes from the original budget in the management accounts format. There were small positive variances on income and pay budgets, however non-pay budgets had increased by a total of £950k to reflect caution on inflationary increases on energy costs and an increase in contingency budget to protect any shortfall in income generation.

11.1.3 The impact of these changes was reflected in a drop in EBITDA by £417k, at £3.5m this represented 7.12% of turnover, lower than the original 8%. This had resulted in a drop of 10 points on the financial health score from 180 to 170, which meant that the financial health grade was Requires Improvement

11.1.4 The cash position was improving, the revised budget allowed for a higher level of RCF repayment, so the balance at 31 July 2023 was expected to be £2.25m, against the original budget of £3.5m. Actual cash was slightly higher and cash days were unchanged.

11.1.5 The KPIs relating to EBITDA and operating surplus were now showing as red flags, given the drop in performance, however it was felt that it was prudent to allow a higher budget for inflationary energy costs and protect against income under-performance, than try to ensure the College met the original targets which given the economic situation, may not be achievable. The CFO advised that finances would be managed to endeavour to meet the original KPIs where possible.

11.1.6 The CFO provided further clarification on points of detail in response to questions from members relating to the estimation of future energy costs and staffing requirements against business plan. In respect of the balance sheet, the budget requested an increase in capital expenditure due to a move to more direct spend on IT rather than through finance leases. The CFO confirmed that the budget enabled all loan covenants to be met.

11.1.7 In response to a question from D Whatton the CFO advised that there was no information as yet on the availability of capital funding or the process for bidding as a result of the ONS reclassification.

11.1.8 **It was resolved** To recommend the revised budget for 2022/23.

11.2 **ESFA Finance Dashboard**

11.2.1 The CFO advised that the ESFA finance dashboard included key performance indicators and measured those against target and sector benchmarks based on the latest assessment of the college's financial health. The dashboards were shared with external stakeholders/partner organisations (including Office for Students, Ofsted and Mayoral Combined Authorities) as appropriate, and were available for governors to access independently.

11.2.2 **It was resolved** To note the ESFA Finance Dashboard.

12 **Fees policy 2023/24**

12.1 The CFO presented the fees policy which was revised annually to reflect changes in funding agency rules and fees. The revised fee policy also incorporated the fee refund policy.

12.2 The purpose of the policy was to set out the framework for fees and charges for 2023/24, the process for payment of fees, the options that were available for payment of fees and the sanctions that would be applied in the event of a default.

12.3 The College was committed to ensuring that its course fees were fair and represented value for money. The College also committed to providing clear information about its fees, concessions and payment methods. The policy had no material changes from the approach adopted in 2022/23.

12.4 **It was resolved** To recommend the Fees Policy 2023/24.

Estates and Capital Projects Matters

13.1 **Commercially Sensitive - Estates and capital projects update**
This matter is the subject of a separate and confidential minute.

13.2 **Priory Villa update**

13.2.1 The CEP advised that he and the CFO had met with the senior team from Dudley Academies Trust and it had been decided that the accommodation provided by Priory Villa would become insufficient for the Trust's needs in the near future and therefore they would be looking at options to move to alternative premises. The request for approval of the sale of the building was therefore withdrawn.

13.2.2 The CFO advised that there was currently no formal lease agreement, but this would be put in place together with an arrangement for recharge of utility costs.

13.2.3 The CEP advised that consideration was currently being given to the future use of the building by the College.

13.2.4 **It was resolved** To note the update in relation to Priory Villa.

14 **Commercially sensitive - Health Innovation Dudley update**
This matter is the subject of a separate and confidential minute.

Partnerships and sub-contracting

15 **Partnerships (sub-contracting) review 2021/22**

15.1 The CEP presented the paper which provided the Committee with an overview of the College's sub-contracting provision for 2021/22 and the monitoring arrangements that were place. In summary:

- The total activity relating to sub-contracting for 2021/22 was £1.43m. The college made payments to partners totalling £1.06m.
- Monitoring arrangements for sub-contracted provision were detailed in section 2.
- Appendix 1 provided a summary of all sub-contractor providers and the value of income in 2021/22.
- Appendix 2 provided a summary of all achievement rates for partners.
- Although there had been a further reduction in the overall value of sub-contracted provision, it was expected that 'niche' high-value partnerships would continue to be required in 2022-23 as more technical curricula were introduced (including within the Black Country & Marches Institute of Technology) and new partnerships with Higher Education Institutions were planned to come on-board from 2022 onwards.

15.2 **It was resolved** To note the partnership report for 2021/22.

16 **Partnerships (sub-contracting) plan for 2022/23 and termly monitoring report (for recommendation)**

16.1 The CEP presented the paper which provided the Committee with an overview of the College's planned subcontracting provision for 2022/23 and the monitoring arrangements in place. It also provided an update on the employer partnership and other managing agent activity.

16.2 In summary:

- The total activity relating to subcontracting for 2022/23 was planned to be £1.18m. The college planned to make payments in the region of £0.86m.
- Monitoring arrangements for sub-contracted provision were detailed in section 2.
- Appendix 1 provided a summary of all sub-contractor providers and the value of expected income in 2022/23.
- Appendix 2 provided a summary of all employer partners.
- Appendix 3 provided a summary of all other managing agents.

- It was expected 'niche' high-value partnerships would continue to be required as more technical curricula were introduced (including within the Black Country & Marches Institute of Technology).
- New partnerships with Higher Education Institutions were planned to come on-board from 2023 onwards.

16.3 **It was resolved** To recommend the partnerships (sub-contracting) plan for 2022/23 to the Corporation.

17 Risk register review

17.1 The CFO presented the risk register review which provided committee members with an update on risks relating to finance and estates.

17.2 There were four risks relevant to this committee, three of these had a risk score of 9 or above:

- The college was unable to attract and retain staff with the right skills, particularly in highly technical areas, impacting on the student experience and student recruitment
- College business was at risk from cyber security threats that may impact on operations, student experience, financial position and reputation
- Unforeseen circumstances such as a change in government or funding policy that the College was unable to manage internally, resulting in potential financial instability
- Lower than expected demand and student recruitment results in income targets not being achieved.

17.3 There were no changes in the net risk score for these risks when compared to the report presented to Audit Committee in October. All actions to mitigate these risks were on track or complete.

17.4 It was agreed that a new risk relating to the implications of ONS reclassification would be added to the risk register.

17.5 **It was resolved** To note the risk register review of finance and estates risks.

18 Any Other Business

18.1 *ONS reclassification* – The CEP provided a brief outline of the ONS decision to reclassify FE Colleges as part of the public sector with immediate/retrospective effect. This was a purely independent accounting decision and related to central government financial controls rather than any consideration of the implications for students. A detailed paper on the implications for the College would be brought to the committee in the new year. The CFO advised that this would be classed as a post balance sheet event to be recorded in the annual accounts.

18.2 Members agreed that future committee meetings would commence at 4.30pm.

19 **Date of next meeting**

13th March 2023 *at 4.30pm.*

22nd May 2023 *at 4.30pm.*

The meeting closed at 18.46.

Approved by committee members at the meeting held on 13th March 2023